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Sales territories in China

Washington

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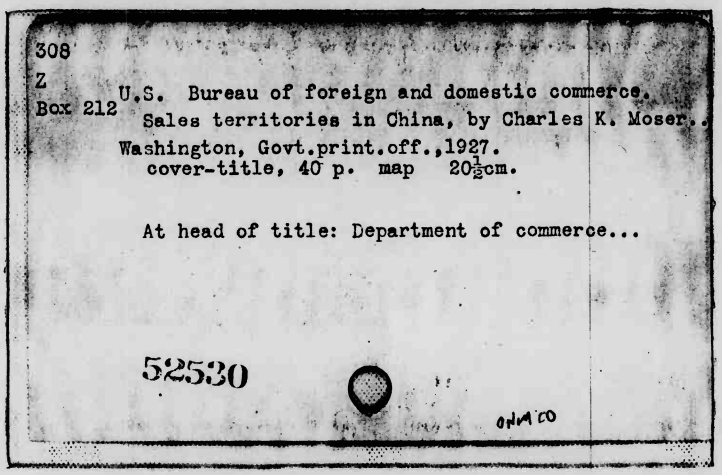

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DEPARTMENT OF COMMERCE
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SALES TERRITORIES IN CHINA

By

CHARLES K. MOSER
CHIEF, FAR EASTERN SECTION
DIVISION OF REGIONAL INFORMATION

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SALES TERRITORIES IN CHINA

For 80 years Shanghai has been the focal point of foreign trade with China, while for 60 years before Shanghai became prominent Canton was the center. Since Hong Kong became a British possession, in 1842, it has shared with Canton the distinction of being a point of distribution for foreign trade in South China, and the two cities are usually bracketed together. Shanghai is and probably always will be the chief foreign-trade center for China from the Yangtze River Valley north, while Hong Kong and Canton will continue to occupy the same position south of the Yangtze.

Sales Methods and Allocation of Territories.

Sales methods in China to-day, however, are in sharp contrast to those of past years. Keen international competition for China's trade, the increasing use of modern marketing methods, and recognition of the necessity for better utilization of such transportation lines and distributing mediums as the country affords have led to a wider allocation of sales territories. Whereas a few years ago the foreign manufacturer or exporter was content to place his business with one of the larger general import and export houses at Shanghai or Hong Kong and leave in its hands all trade distribution throughout the interior, the tendency to-day is to work foreign-trade distribution from at least three or four other centers of distinct and major importance—Hankow, Tientsin, Harbin, and possibly Dairen.

The allocation of sales territories in China involves consideration of at least three exceptional factors: (1) The immense size of the country, (2) its innumerable population, sparse over vast areas but crowded to saturation around the main trading centers, and (3) the limited and primitive transport systems that provide distribution. Other factors are the buying power of the people in a given area; the kinds of foreign goods in demand or for which a demand may be cultivated; banking and local financing systems, availability of

foreign or other agency connections; and methods of business, including credits and the facilities for advertising. But these are of minor consideration compared with area problems, distribution of population, and the extent of communication facilities.

China, including its dependencies—Mongolia, Chinese Turkestan, and Tibet—has an area of over 4,200,000 square miles, or nearly that of the United States and Mexico combined, with an estimated population of 446,000,000. China proper embraces less than 2,000,000 square miles, yet contains 436,000,000 of the population. Thus, one half of China is densely peopled, while the other half supports less than one-fortieth of the country's inhabitants.

Transportation Facilities.

All this enormous area, peopled by nearly one-fourth of the human race, is served by but 7,500 miles of railway, as compared with 265,000 miles in continental United States. Half of this mileage traverses Manchuria, a territory embracing considerably less than one-tenth of China's area and hardly one-twentieth of the total population. It is this railway development that has led many students of China's economic outlook to speak of Manchuria as the "future granary of Asia," and to designate it as the most progressive and growing of all regions in China. Railway development, moreover, is proceeding in Manchuria more rapidly than elsewhere in the country.

Population naturally gravitates to regions provided with adequate and easy means of transportation. Six-sevenths of China's inhabitants are concentrated in one-third of its territory. The greatest density is along the rivers and the coastal region or around the main trade centers but always within reach of ample and convenient routes of transportation and distribution. The Yangtze River is the greatest of China's trade routes, and the population of the Yangtze Basin is estimated at 200,000,000. The Yangtze Delta, with an area of 50,000 square miles, or about that of the State of Illinois, has an estimated population of 40,000,000, or 800 to the square mile. Western China, Mongolia, and Turkestan possess mineral wealth and vast areas of fertile land, but lack of adequate means of transportation has discouraged settlement of these regions. The hordes of farmers that have migrated from Shantung and Chihli in recent years have settled in Manchuria, along the railways, in reach of postal

and telegraph routes. It is estimated that in 1926 approximately 800,000 people found new homes there.

Except for military roads lately built by the contending armies in some eastern and central Provinces, there are few highways suitable for motor or wheeled traffic in China. A good part of the new military roads has been constructed for motor service, and when peaceful conditions are restored throughout the country these may become of use to civil commerce. Apart from the railway traffic around the treaty ports, the commerce of interior China still travels—as it has for centuries past—the rivers, the many creeks and canals, the great caravan routes of the northwest, and the narrow trails worn down by wheelbarrows, the feet of men, or beasts of burden in single file.

Treaty Ports.

The early treaties provided but five ports in which foreigners were free to reside and to do business in China. They were Canton, Amoy, Foochow, Ningpo, and Shanghai, increased after the treaty of 1858 by the addition of Tientsin and several lesser ports. In the years since, the number has been increased to 69 treaty ports and 11 voluntarily opened trade marts, where foreigners may reside and lease premises for residential or business purposes. Those who think that the foreign business man or commercial traveler may travel or establish himself anywhere in China, need to be reminded that only missionaries are privileged by treaty to reside and lease premises outside the places stipulated in the treaties. The 69 treaty ports, however, include all trade centers of any importance, and native traders or agencies are usually adequate to cover the more remote areas.

Principal Commercial Areas.

Geographically, China may be regarded as divided into three principal areas for commercial purposes: North China, with Tientsin as its trade capital; Central China, dominated by Shanghai and the Yangtze River trade; and South China, the area of distribution for Hong Kong and Canton. North China is considered in this arrangement to stretch from the Yellow River northward to Siberia, and westward to Turkestan. Central China embraces Shantung, the coast Provinces, and the Yangtze Valley to an indeterminate point south of the Yangtze River and westward to Tibet. South China includes the China coast, at least from Foochow southward, and all the remaining territory south of

the Yangtze, including Yunnan and such parts of Indo-China as are tributary to the Haifong-Hanoi Railroad.

This is an admirable allocation of sales territories as far as it goes, and many foreign houses have confined their branches or agencies to Shanghai, Tientsin, and Hong Kong-Canton, in many instances, with gratifying results. However, in this arrangement the distances from main centers to lesser but important trade centers are still too great, and the transportation facilities too limited and slow for adequate distribution in these days when modern trade methods and keen international competition are growing forces in China's market development.

As a comparable analogy, let us imagine the United States with four times its present population but only one-fortieth of its present railway mileage, and no system of highroads, attempting sales distribution throughout its whole area from the three coast cities of New York, Baltimore, and New Orleans. The analogy is imperfect because New Orleans and not New York sits at the mouth of the great natural interior traffic way, the Mississippi River, while Shanghai is at the mouth of the Yangtze. Baltimore is analogous to Tientsin, because it would be the point of contact with the Government institutions, important buyers in China, at the capital of the country.

The three American cities are not so far apart as the three Chinese centers, but they are nearly as remote from the remainder of the country. It may be easily understood that in order to cover the immense population of the United States under the conditions named, we should be obliged to establish large distribution depots and sales agencies at, say, Boston, for the New England district; Cleveland, for the Great Lakes region and the Ohio River Valley; St. Louis, for the Mississippi Valley and Middle West; Denver or one of the Pacific coast cities, for the Rocky Mountain and Pacific region. These centers might have railway communication with the nearest or most important portions of their areas, but they would be still many days distant by pony mail, river steamer, prairie schooner, or flatboat (for shallow creeks or canals) from large areas of population in their several districts.

Distribution Problems.

Under the system of distribution from Shanghai, or two or three main centers only, the American sales representative in China, is frequently called upon to do the impossible in covering the territory assigned to him. Transportation facilities offer him an ever present problem, even in the best of times. When civil war is going on or there are political upheavals, floods, strikes, or famines, his difficulties are disproportionately increased. For example, it is 907 miles by rail from Shanghai to Peking, and in normal times mail, if immediately attended to, may make the round trip between the two cities in five days. At the present time railroad traffic is completely demoralized, and it takes mail about 25 days to go from Shanghai to Peking, the actual time depending somewhat upon boat service between Shanghai and Tientsin. The following table gives the distances between Shanghai and various points in China, with the means of communication and the hours required in transit under normal conditions:

Shanghai to Hankow, 650 miles by water, direct communication, 4 days; 600 miles by rail and water, 3 days.
Shanghai to Tientsin, 821 miles by rail, 33 hours; by steamer, 4 days.
Shanghai to Foochow, 445 miles by steamer only, 3 days.
Shanghai to Hong Kong, 852 miles by fast trans-Pacific liners, 2 days; by other steamers, 4 days.
Shanghai to Harbin, 1,597 miles by rail, 79 hours.
Hankow to Tientsin (via Peking), 900 miles by rail, 42 hours.

The following table shows the actual length of time required under normal conditions in China, for mail dispatched from Shanghai to reach some of the principal cities and, with immediate attention, return reply:

Amoy, 7 to 12 days, communication only by steamer.
Antung, 8 days, by rail or by rail and steamer.
Canton, 8 to 15 days, by steamer only.
Changsha, 9 days, Shanghai to Nanking by rail, remaining distance by steamer.
Chefoo, 5 to 14 days, by steamer service only.
Chungking, 25 to 45 days, by Yangtze River steamers only.
Dairen, 7 to 12 days, by steamer only.
Foochow, 6 to 10 days, by steamer only.
Hankow, 8 to 9 days, by rail to Nanking; remainder of distance by Yangtze River steamers only.
Hong Kong, 11 days, by steamer only. Time may be somewhat shortened if mail steamer schedules happen to be just right.
Kalgan, 9 to 10 days, by rail.
Mukden, 7 to 9 days, by rail or steamer to Dairen, thence by rail.
Nanking, 36 to 48 hours, by rail.
Peking, 5 days, by rail.
Swatow, 11 days, by steamer only.
Tientsin, 4 days, by rail.
Tsinan, 5 days, by rail.
Tsingtau, 6 to 9 days, by steamer.

SHANGHAI

The foregoing statement, in which emphasis is laid upon the distance of various important trade centers from Shanghai, is not intended to minimize the trade importance of that great port. Shanghai is, and will probably always remain, to China what New York is to the United States—its chief port, its city of greatest wealth, population, and commercial activity. It is the point of origin or terminus for most of the principal lines of communication and transportation. It has the most modern facilities for receiving, storing, or distributing goods. Lying at the mouth of the Yangtze River, China's greatest transportation route and navigable for nearly 2,000 miles into the interior, Shanghai is a modern city of approximately 1,500,000 people, the heart of which is the wealth and commercial activity of its foreign population. Fifty per cent of the total trade of the country passes through Shanghai, and its annual shipping trade to all ports of the world approximates 30,000,000 tons. It has 30,000 foreign residents, of whom 3,500 are Americans. The Japanese are first in point of numbers, but the British lead in wealth and influence, followed by Americans, French, Germans, and others, all of whom are largely represented in the commerce and industries of the port. Shanghai is composed of the International Settlement, under the administration of the Shanghai Municipal Council, and the French Concession, administered by representatives of the French Government in China. The civil administration of modern Shanghai is therefore in foreign hands, and its more than 1,000,000 Chinese inhabitants live under foreign law.

Of the foreign trade of China, amounting in 1925 to 1,724,218,000 haikwan taels ($1,342,090,000), Shanghai contributed 738,073,000 haikwan taels ($620,766,000), exports amounting to 306,185,000 taels ($256,277,000) and imports totaling 431,888,000 taels ($364,489,000). Since 1910 the foreign trade of Shanghai has increased 97 per cent. Shanghai is 5,491 nautical miles from San Francisco, 5,065 miles from Seattle, and 10,684 miles from New York via Panama, while via Suez it is 12,405 miles from New York. It has direct steamer connections with both Atlantic and Pacific ports of the United States and with all the great ports of Europe. By steamers connecting Shanghai with British, Japanese, and French ports and touching at intermediate ports, it has connections with steamship lines to Australia, New

Zealand, and the islands of the South Indian and South Pacific Oceans. It is, moreover, directly connected with the cities of Europe by rail through North China, Siberia, and European Russia.

Transportation Facilities.

Two important railways in China have their termini at Shanghai. The Shanghai-Nanking Railway connects at Nanking, by ferry across the Yangtze, with the Tientsin-Pukow Railway between Tientsin and Pukow, and from Tientsin via the Peking-Mukden Railway northward to the great trans-Siberian route to Europe. The Shanghai-Hangchow–Ningpo Railway links Shanghai with the treaty ports of Hangchow and Ningpo, through which pass practically all the foreign imports for Chekiang Province. There are also small railways to near-by points.

The Yangtze River, the Whangpoo River, Soochow Creek, the Grand Canal, and innumerable local canals distribute trade from Shanghai to all parts of the Yangtze basin and beyond. In the Provinces of Kiangsu (in which Shanghai is located) and Chekiang alone the waterways and canals are estimated to aggregate a total of 65,000 miles. The Yangtze is of course the greatest of all traffic routes into the interior. By it Shanghai is linked to Nanking, Nanking to Kiukiang, Chengsha, and the three Han cities—Hanyang, Wuchang, and Hankow—the latter often called the Chicago of China. Steamers especially constructed for passing the rapids above Ichang carry merchandise to Chungking, 1,500 miles from Shanghai, while smaller native craft work their laden way up the river many, many miles farther (towed by coolies).

About 250 American firms are established in Shanghai, or 50 per cent of the American concerns in China, including 4 American exchange banks. There is, moreover, an American chamber of commerce, an American club, a country club, a university club, a women's club, an athletic association, a bar association, a volunteer military company, an American newspaper, and many schools.

Agency Houses.

Undoubtedly the best representation that an American manufacturer or exporter can have in China is that of a branch of his own firm located at Shanghai. This gives the advantage of quick decisions without recourse to the home office or instructions from sources which

may not appreciate the problems involved. The growing importance of China as a market for American products has caused many foreign firms in recent years to consider seriously the establishment of branch houses, but present conditions in China have led at least temporarily to hesitation on this point. Next best probably is the appointment of direct manufacturers' agencies. Distributors in China more and more are coming to demand direct dealings with the manufacturer or the manufacturer's local agent. However, whether manufacturer's or exporter's agents are to be appointed, the question of the proper agency is one of utmost importance. The American manufacturer or agent has a large contingent to choose from: (1) He may elect to give his agency to one of the many American firms established in Shanghai dealing with similar noncompetitive lines; (2) he may place his agency in the hands of some one of the many foreign non-American firms; (3) or he may place it with some Chinese firm.

Generally speaking, it is advisable for the American manufacturer or exporter to place his agency with an American firm in China. The larger of these have branch distributing houses in all the principal Chinese trade centers, and these have Chinese subagents or connections in the more important points of the interior. Some of the British and other foreign houses have an even more comprehensive distribution system, but in many cases they are naturally more interested in the distribution of products of their own nationality, though this is by no means always the case, and many important American products and agencies are handled by them.

Foreign Agencies.

In general, it is not customary to find foreign agencies in the hands of Chinese firms. This is not because of a lack of faith in the integrity of the Chinese firms nor to discrimination against them, but rather to the fact that a very large majority of Chinese firms have had little experience in direct dealings with foreign firms abroad and are frequently unfamiliar with foreign-trade methods. In many instances they are quite as frequently unwilling to familiarize themselves with foreign-trade procedure, preferring to keep to their own age-old trade customs and deal through the compradors of foreign firms established locally. New Chinese firms, organized by members of the younger

generation, sometimes offer themselves as agents for foreign houses without having had the necessary experience to adequately undertake such representation. The American manufacturer should proceed with caution before trusting his business in China to such firms.

Although China is in transition, with the younger generation taking the lead in many activities, it is still the land of fathers and grandfathers, and it will be many years before the family system there will be so adjusted as to give the young man a position of independent responsibility, free from obligations to relatives. Under the direction of competent foreign executives, however, business houses in China are coming more and more to utilize the services of trained Chinese salesmen in the distribution of foreign goods. In any case, before agencies are placed in China, firms in the United States should invoke the advice of the foreign commerce officers of the Bureau of Foreign and Domestic Commerce, or of the officers of the American consular service in the consular district in which the agency is to be located.

Chinese firms have a very real place in the distribution of foreign imports as subagents in the smaller or more remote cities. Some of the foremost foreign firms operating in China have abandoned outport offices under foreign management and have built up native-agency organizations throughout the territory, which correspond largely to western domestic-dealer organizations. This is especially true of firms dealing in general imports rather than in specialized lines, such as textiles or machinery.

Native Dealers.

The native dealers are invariably selected only after first-hand investigation of their character, credit, and facilities for handling business. They are usually bound to the foreign firm by some form of dealer-agency agreement, and they are required to give guaranties of good faith, sometimes in the form of guaranty bonds or cash deposits, sometimes by the signature of sponsors, family or otherwise, of known integrity and financial worth. These dealers are held solely responsible for stocks, sales, rendering of current accounts, and the transfer of funds. They may appoint subagencies subject, however, to the approval of the foreign concern or its foreign representative. In the case of commodities of low cost units and wide

distribution, such as kerosene oil and cigarettes, this agency system, with its extended subdivisions, permeates many sections of China, even to the smallest hamlet.

Under normal conditions of transportation and civil administration it is important that these native agencies should be closely supervised by traveling foreign-sales representatives. However, the greatly disturbed conditions of recent years, together with the greatly increased competition, have served to transfer an increasing amount of this supervision to Chinese hands.

Distribution Headquarters.

While Shanghai is the logical location for the headquarters of an all-China sales distribution force, the activities of the local sales force should be, perhaps, restricted to a definite Shanghai area. This would embrace the coastal regions on each side of the lower Yangtze (see map) or the Provinces of Kiangsu, Anhwei, Chekiang, and parts of Kiangsi and Fukien, and the lower half of Shantung Province. Besides Shanghai, cities of importance in this territory would include Tsingtao, Chefoo, Nanking, Changchow, Wuhu, Anking, Chinkiang, Soochow, Nangchang, Hangchow, Ningpo, Wenchow, and Foochow. All of these can be reached by coastal steamers, by railroad, by Yangtze River steamers, or by canal routes. Of these cities, Hangchow and Soochow are important silk centers and of considerable value in the tea trade. Ningpo exports a great deal of tea and is an important market for fish. Hangchow and Ningpo divide between them practically all the foreign imports reaching Chekiang Province, except a small amount which passes through Wenchow, a port once well known in the green-tea trade, but of lesser importance in recent years. Wuhu is the most important rice-exporting center in China, and Foochow is the main distribution point of all the import and export trade of Fukien Province.

Among the foremost reasons for establishing the headquarters of the sales distribution force at Shanghai is the fact that it is so well equipped with banks to handle import and export trade. There are 25 banks specializing in the foreign exchange and trade. Most of these are foreign banks and of many nationalities, but in late years the Chinese bankers have come to realize the importance of this department of banking business and are slowly undertaking to engage in it. Chinese banking institutions are not as a rule, however,

familiar with foreign-trade practice. Foreign banks usually undertake the financing of foreign business houses by the means of overdrafts, on which the interest rates are from 7 to 10 per cent per annum.

Commercial transactions are conducted in Shanghai taels and Mexican dollars. In practice Mexican dollars are on a parity with Yuan and provincial dollars. The Chinese maritime customs makes all of its collections in haikwan taels, which have a fixed relation to the currency of each port where there is a customhouse. In Shanghai the Mexican dollar is preferred over all other coins, although the Yuan dollar—practically universal in the north—is accepted without objection. Foreign banks operating in China issue their own notes, however, which have a wide circulation and accordingly facilitate the transaction of ordinary business which requires the use of currency. Some of the larger Chinese banks also issue similar notes.

Shipments Against Credits.

The majority of exporters of Chinese produce ship their goods against credits which have been opened in Shanghai banks by their foreign connections. Some companies draw at 30, 60, or 90 days on the foreign purchaser, and by others the open credit system is followed. In order to guard against losses through frequent fluctuations, exchange should be covered at the time of drawing the draft.

It has never been the general practice of foreign exporters to consign cargo to China except in instances where manufacturers maintain their own office in the country. Importers in China ordinarily open cash credits in the foreign centers in which the goods are purchased, or arrange with their local banks to honor drafts against them for the goods shipped. Bills are drawn on them or against letter of credit, accompanied by shipping documents. When the goods arrive, bills of lading, invoices, and, if necessary, shipping papers are handed over to the importer by the bank with indorsement. Goods are stored to the order of the bank. Landing and warehouse receipts are sent to the bank and the importer pays the charges. The Chinese dealer, who has purchased from the importer, applies to the importer for delivery of such part of the goods as he may require, giving him a native bank order for an amount proportionate to the goods taken. This native bank order is then sent by the importer to his own bank, which issues a delivery order for the goods

specified and credits the special account of the importer with the amount of the native order. When the goods involved in the transaction have been delivered and all payments credited the bank sends out its account for the original bill, in taels, and remits the face amount to the home bank. The importer has always the privilege of settling exchange before due date of the bill.

The native bank order plays an important part, it will thus be seen, in trade transactions between foreigners and Chinese. The average Chinese business house carries accounts with a number of Chinese banks and usually pays its bills in orders on its native bank. The orders are invariably in local taels and are usually postdated 10 days. The foreign banks usually charge a small fee for handling native orders presented for credit, but the cost is insignificant. All leading foreign banks accept native bank orders, generally under the guarantee of their compradors.

The Comprador.

Practically every foreign firm in Shanghai, as well as in other parts of China, employs a comprador, who guarantees all contracts for the foreign firm. He is generally a Chinese merchant of the locality who is willing to handle the firm's business with Chinese for a more or less inconsiderable percentage of the profit, plus a small salary. He is invariably bonded—usually by his relatives, his guild, or his business associates—to the foreign firm, and takes the responsibility for the firm's transactions with the Chinese dealer. He has his own staff, and it is a basic principle that the comprador of the foreign firm guarantees the commercial morality and financial situation of any Chinese firm introduced by him to the business of his principal.

In recent years, however, the influence of the comprador has shown a slow but steady decline. While still employed, he no longer possesses the importance of former years. One reason for this is that many foreign firms have developed their own employees or associates with sufficient knowledge of the Chinese language and character to take his place, or they have taken in Chinese managers. Another is that the larger and more progressive Chinese firms have developed young Chinese business men, educated abroad, who have sufficient knowledge of the foreign ways and language to enter into direct relation with the foreign firm without the intermediary comprador. Furthermore, while it was originally the practice for the comprador to guarantee his firm against all losses caused by the Chinese buyer or seller, at present the most general practice is for him to assume only a percentage of losses, usually from 25 to 33⅓ per cent.

Practically all of the big foreign trading companies handle a great many foreign agencies, and it is difficult to place an agency with one of them unless it represents some entirely new line. Until recent years the China import and export house handled every kind of line or business brought to it. In recent years, however, there has been a tendency to concentrate more and more on specialized lines, particularly imports such as machinery, machine tools, cotton goods, electrical equipment, hardware, automobiles, etc. The smaller foreign firms usually have been content to handle less important lines, or less well known brands of important lines, than the larger firms, and have been willing to take a chance on nearly any line offered. However, there also is a growing tendency among the smaller foreign firms to curtail their diverse representation and to confine themselves to a few lines upon which their small distributing organization can concentrate. The individual manufacturer's agent is becoming prominent in the import business of China, and the smaller firms are coming more and more to act direct as manufacturer's agents for particular lines rather than as agencies of general exporters. If these smaller foreign firms have a good trade credit rating and a high reputation for business experience and energy, they are sometimes unexcelled as agents for the handling of a specific commodity.

Advertisements.

English is the commercial language of Shanghai. There are a number of newspapers published in the English language, and for the larger purposes of trade advertisements in these papers will reach most of the firms which might be interested in the commodity. However, advertising in the several Chinese-language newspapers can not be ignored, and many foreign firms who have had great success in recent years with the distribution of their products among the Chinese have utilized these papers to the full. Few papers exist with a circulation of 50,000 and not many with more than 5,000 daily circulation, but newspapers are passed on from one family to another in China, so that an average of 10 readers to each copy is a conservative

estimate. The advertiser should be extremely cautious never to undertake the publication of pictures or cuts for Chinese consumption, or advertising text in the Chinese vernacular, without first obtaining the advice of an expert in the field. Errors in subject or color scheme or in the phrasing of a sentence, which would be of little importance to American readers, may be possessed of great significance for the Chinese reader and lead to positive disaster so far as selling results are concerned.

HONG KONG AND CANTON

In respect to the establishment of a sales agency in the Hong Kong-Canton area and the advantages of one city over the other the matter will be best decided by the head of the agency from his own observations. Canton is one of the richest cities of South China and is developing along modern lines. In 1926 its total trade aggregated nearly $200,000,000. Foreign imports were valued at more than $60,000,000, and exports to foreign countries totaled $48,000,000, of which the United States' share amounted to $14,000,000, principally raw silk. Other items of export to the United States include waste silk, silk and cotton manufactures, firecrackers, matting and rugs, bamboo and rattan ware, cassia, chinaware, tungsten, and Chinese foodstuffs.

Imports from the United States consisted mainly of petroleum products, wheat flour, sewing machines, electrical equipment and supplies, toilet preparations, medicines and drugs, automobiles, upper leather, canned foodstuffs, dental and surgical instruments, industrial machinery, tools and hardware, haberdashery, and cigarettes. Important items of import in which the United States had little share are cotton and woolen piece goods, rice, coal, fish and fishery products, dyes and chemicals, sole leather, and sugar.

Transshipment at Hong Kong.

Cargo to and from the United States and Canton is transshipped at Hong Kong, 95 miles distant. However, as through bills of lading are issued to cover shipments to Canton and American ports, transshipment at Hong Kong does not complicate the shipment of cargo. Foreign and Chinese vessels ply daily between Canton and Hong Kong, while most of the oceanic steamship lines have agencies at Canton. A large number of foreign firms, including several

important American companies, have considerable establishments in Canton, and some of them report an excellent business throughout the Kwangtung area; but owing to the unsettled administrative conditions in and about the city generalizations with regard to the future of foreign trade centered there can be of little value.

Hong Kong, on the other hand, is a British Crown colony, its entire population under British law, with English as the official and commercial language. Hong Kong is primarily the distributing point of trade for all China south of Foochow and north of Saigon in French Indo-China, transshipping and financing approximately 65 per cent of the total trade. It is the transshipping point for American cargo destined for South China ports, as well as for Java, Singapore, and Indo-China. It has direct steamship connections with most of the maritime countries of the world. In South China the important trade cities of Amoy, Swatow, Canton, and Wuchow are commercially tributary to it, while through the Haifong-Hanoi-Yunnanfu Railway it collects and distributes trade for French Indo-China and distant Yunnan Province to the borders of Burma. The trade area tributary to Hong Kong is estimated at nearly 500,000 square miles, with a population of considerably over 100,000,000. In all this area and to serve this vast population, the only railways are the Haifong-Hanoi-Yunnanfu (about 600 miles) in the west, the Kowloon-Canton Railway (119 miles), and the completed section of the Canton-Hankow Railway, from Canton to Shiuchow (around 141 miles). There is a coast line, however, of well over 1,000 miles, with numerous bays and harbors which swarm with native junks, and the considerable water system formed by the junction of the West, the North, and the East Rivers at Canton. These three rivers, with their tributaries, penetrate practically all of the Kwangtung-Kwangsi area, and most of the trade of the entire Hong Kong trade territory is carried by water.

Hong Kong is practically a free port. No duties are levied, except on liquors and tobacco for local consumption. Goods going into China from Hong Kong, however, must pay the usual Chinese customs duties at the ports of entry. The Hong Kong dollar is the standard currency, and its exchange value varies according to the price of silver, upon which it is based. The population of Hong Kong is estimated at nearly 700,000,

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of which about 15,000 are Europeans and 500 Americans. About 30 American business firms are located there.

Cable service out of Hong Kong is chiefly handled by three companies, the Great Northern Telegraph Co., a Danish corporation, which in normal times is connected with Europe by way of Siberia; the Eastern Extension Telegraph Co., a British corporation, which connects with Europe by way of Suez; and the Pacific Commercial Co., an American corporation, which transmits messages to the United States by way of Manila. There is also the Chinese Government's land service, which telegraphs messages not only all over China and India but to other countries by connecting cables at Shanghai. There is in addition a commercial wireless station at Cape D'Aguilar, which is owned by the Hong Kong Government.

Financing Exports from United States to Hong Kong.

Exports from the United States to Hong Kong are financed by letters of credit or by bill of exchange. In the former case the Hong Kong buyer opens a credit at his local bank which contains a complete statement of the conditions upon which it may be drawn against. Drafts drawn by the American exporter against such a letter of credit usually must be accompanied by the bill of lading and insurance policy, and may be negotiated through any local bank in America, which, of course, must be careful that all the conditions specified in the letter of credit have been complied with. The usance generally varies from eight to four months.

The other principal form of payment is by bill of exchange. In such cases the American exporter sends the draft, bills of lading, and insurance policy direct or through the mediation of his local banker to a Hong Kong bank. If the transaction is D/A (documents on acceptance) the Hong Kong bank delivers the documents to the Hong Kong importer on his acceptance of the bill of exchange. If the transaction is D/P (documents on payment) the Hong Kong bank delivers the documents on payment of the bill of exchange.

Hong Kong is amply provided with well-established European business houses, mainly British, and a considerable number of reputable American houses which are in a position to handle foreign sales agencies. As is the case with foreign firms in Shanghai, however, most of the larger, old-established houses already handle many lines, and it is not an easy task to induce

them to take on new ones. There are two American banks in Hong Kong and 17 banks of other nationality which handle foreign exchange. Methods of handling import distribution, native agencies, and credits do not greatly differ at Hong Kong from those in practice at Shanghai and in the majority of the other Chin a ports

HANKOW

Hankow is a city of about 1,000,000 inhabitants, 600 miles up the Yangtze River from Shanghai, and the head of navigation on that river for ocean-going vessels. Because of its large manufacturing interests and the vast territory of Central China which it serves as a center for the assembly and distribution of trade, it is often called the "Chicago" of China. Among the chief industrial plants at Hankow and in the neighboring cities of Wuchang and Hanyang are iron and steel works, cotton mills, silk filatures, cement plants, flour mills, tanneries, a mint, an arsenal and engineering works, antimony and lead and zinc works, match and albumen factories, and lumberyards. The curing of tea is also an important industry. Hankow shares with Tientsin the bulk of the hide-exporting trade.

The principal products of the region are cotton, beans, tea, wheat, gallnuts, walnuts, sesame seed, peanuts, wood oil, tobacco, eggs and egg products, hides and skins, vegetable tallow, bristles, coal, iron, and antimony—all of which enter into Hankow's export trade to a very considerable extent. Hupeh, the Province in which Hankow is situated, abounds in iron and coal, while the adjoining Province of Honan is exceptionally rich in coal. In 1925 the gross value of the trade was $296,797,000; the net imports of foreign goods were valued at $58,092,000, and the net exports of native goods at $129,882,000. Leading foreign imports are cotton goods, kerosene oil, metals, iron and steel, hardware and tools, industrial machinery, lumber, aniline dyes, paper, canned goods, railway and construction materials, and electrical machinery.

Important Centers and Treaty Ports.

Much of the sales territory that may be described as commercially tributary to the city of Hankow has never been surveyed. Including Tibet and part of eastern Turkestan, its area probably totals 2,000,000 square miles and embraces the Provinces of Szechuan and Hupeh, Kansu, Shensi, and Honan south of Yellow River, the Kokonor (special administrative

district) and the northern half of the Provinces of Kiangsi, Hunan, and Kweichow south of Yangtze River. In addition to the three Han cities (Hankow, Wuchan, and Hanyang), other important centers and treaty ports included in this area are Kiukiang on the lower Yangtze, Ichang and Chungking on the upper Yangtze, Changsha in Hunan, Chengtu in Szechuan, Shasi in Hupeh Province, Nanchang in Kiangsi, and Lanchow in Kansu. The population of this vast area is unknown. It is thickly crowded in Szechuan and the easternmost Provinces and sparse in Tibet, Turkestan, Kokonor, and Kansu. Probably a fair estimate would be 100,000,000.

In all this extensive territory only the extreme eastern portion centering around Hankow is provided with railroads. The Peking-Hankow trunk line connecting those two cities carries Hankow trade across Hupeh and Honan at least as far north as the Yellow River and connects at Chengchow with the Lung-Hai Railway, running east and west from Hsuchow, on the Tientsin-Pukow Railway, to Tungkwan in Shensi. There is also the Hupeh-Hunan section of the Canton-Hankow line, running south from Wuchang along the river to Yochow, then due south to Changsha and eastward to Pingsiang in Kiangsi, a total distance of 320 miles; and finally the 80-mile line around Poyang Lake from Kiukiang to Nanchang.

Transportation Facilities.

The main distribution system of Hankow's commercial area is the Yangtze River and its tributaries. Special steamers of light draft ply the Yangtze from Hankow past the rapids to Ichang, and cargo in native boats is towed from there to Chungking in Szechwan, 1,500 miles from the mouth of the river. Navigable tributaries, such as the Han, the Kailing, the Yuen, and the Kan Rivers, and innumerable smaller streams help carry trade to and from all parts of the interior. Highways, with the exception of about 20 miles in and around Hankow and about 600 miles in western Hupeh, are in bad condition and of little use as traffic bearers. Transportation overland in the interior, aside from the waterways and a few motor busses on the routes referred to, is performed almost entirely by coolie carriers.

Direct shipments on ocean steamers to Hankow are possible only during the period of high water, from May to October. From October to May cargoes from the United States are transshipped in Shanghai to the

shallow-draft river steamers, and an additional charge of 50 cents gold per ton is imposed to cover storage and lighterage charges at Shanghai. Freight rates on direct shipments by ocean steamers from American ports to Hankow are covered by a flat charge of $2.50 United States currency per ton above the established rate from the American port to Shanghai.

Hankow, like the other principal trade cities of China, is a city of many large and well-established foreign firms, 18 of which are American. These firms handle practically all foreign-trade agencies, as for the most part Chinese firms of this area are neither accustomed nor equipped to engage in direct foreign trade.

The American and European population of Hankow in normal times has numbered in recent years around 1,500. Each of the principal nationalities has a chamber of commerce, and there are six foreign exchange banks, as well as the Chinese Bank of Commerce and the Bank of Communications. The currency in actual circulation at Hankow is the Yuan dollar, although, as in other sections of China, sales and accounts of foreign trade are recorded in taels.

Many of the American and European houses at Hankow have a distributing organization adequately and efficiently covering the entire area, and it is to these old-establfshed firms that the average American manufacturer or exporter must look for arranging his agency. The only difficulty is that most of these houses of the larger and more efficient type are already filled with standard lines. The choice in agency connections of this character is therefore limited.

Market Outlook.

It must be admitted that the market in the Hankow area for many lines of American manufactures, other than for such specialties as kerosene oil and tobacco products, is not likely to be sufficiently large for some years to come to justify the establishment of a special or separate selling organization at Hankow. In view of the fact that Shanghai is but 600 miles distant from Hankow and is furthermore an inevitable port of arrival and departure for nearly all of Hankow's foreign trade, the sales agency at Shanghai would probably be in a position, through a subagency at Hankow, to adequately cover all the trade of that territory.

However, such a subagency would require and deserve an amount of foreign supervision not ordinarily accorded to subagencies. The principal export products of the area tributary to Hankow differ from those

LONGITUDE EAST FROM GREENWICH
112
124
DEPARTMENT OF COMMERCE
BUREAU OF FOREIGN AND DOMESTIC COMMERCE
FAR EASTERN SECTION, DIVISION OF FOREIGN INFORMATION
CHINA
SALES TERRITORIES
SCALE
0 100 200 300 MILES
LEGEND
RAILROADS
INTERNATIONAL BOUNDARIES
PROVINCIAL BOUNDARIES
MONGOLIA
Urga
Hailar
Tsitsihar
Harbin
Vladivostok
Taonanfu
Changchun
Mukden
Kalgan
Suiyuan
PEKING
Paotowchen
Tatung
Tientsin
Taiyuan
Lanchowfu
Sian
Kaifeng
Tsingtao
Chefoo
YELLOW SEA
Seoul (Keijo)
Fusan
Nanking
Shanghai
Hangchow
Hankow
Hanyang
Chengtu
Chungking
Changsha
Pingsiang
Foochow
Amoy
Shiucheow
Canton
Hong Kong
FORMOSA
Yunnanfu
BURMA
Tropic of Cancer
FRENCH INDO-CHINA
KOREA
40
28
100
112
124
D.D. 3104-23.

of the Shanghai area, and the import demands of the inhabitants, who are much less sophisticated people and more remote from modern standards of living and industrial products, offer important variations. In the keener competition for trade that should be an inevitable reaction from the present situation in China, the successful foreign trader will be he who, himself or through trusted foreign lieutenants, makes wider and wider contact with the Chinese people and the market possibilities at a distance from the treaty ports. Undoubtedly a sales agency at Hankow may be operated with greater dependence than some others upon the head organization or agency at Shanghai; but to cover the market possibilities of the area properly will require men trained to its special conditions and experienced in overcoming its exceptional obstacles.

TIENTSIN

Tientsin ranks second to Shanghai in China's foreign import trade and fourth in export trade. In volume of total trade, Tientsin has lately yielded second place to Dairen.

Tientsin, moreover, is the port of Peking, China's present capital, 92 miles distant by rail. Both cities have a population of approximately 1,000,000 each; but while Peking is the seat of most Government institutions and the foreign diplomatic representatives, Tientsin has by far the largest and most active foreign commercial community. It is on the Hai River, 47 miles from the sea, and light-draft vessels may come directly up to its quays, but deep-draft ocean-going vessels discharge their cargo into lighters off Taku Bar, at the mouth of the river. This bar is one of the main drawbacks to the development of Tientsin as a great port of trade, but with restoration of normal conditions in China it is expected that the deepening of the Hai River to accommodate vessels up to 30 feet draft at Tientsin, dock side, will not be long delayed. Ice breakers keep the Tientsin port open throughout the winter.

The territory commercially tributary to Tientsin consists of the whole of Chihli and Shansi Provinces; Shantung Province, north of the Yellow River; portions of Honan and Shensi Provinces; all of inner Mongolia; portions of Kansu and Chinese Turkestan; and certain sections of southern Manchuria. The total area of this territory approximates one-third of all China, and its

population is probably in the neighborhood of 80,000,000 people. Outside of Peking and Tientsin, there are no large cities, though Taiyuan, the capital of Shansi; Tsinan, capital of Shantung; Kalgan, on the southern boundary of inner Mongolia; Paotowchen, on the southern boundary of Mongolia; Suiyuan, the commercial railhead of the Peking-Suiyuan Railway; and Urga, the distant capital of Mongolia, are all points of considerable trade importance.

Imports and Exports.

Foreign imports into Tientsin in 1925 were valued in excess of $90,000,000, while exports to foreign countries were valued at approximately $52,000,000. The principal imports from foreign countries are cotton textiles, kerosene oil, iron and steel products, foodstuffs, dyes, tobacco products, machinery, railway materials, and a great diversity of miscellaneous goods. The principal exports are wool, rugs, cotton, hides and skins, furs, bristles, straw braid, hair, peanuts, walnuts, and oilseeds. Foreign goods arriving at Tientsin go by rail to Kalgan and Paotowchen, and from thence are distributed by camel caravans throughout Mongolia and into Chinese Turkestan to points as distant as Kucheng and Urumchi, over 3,000 miles from the sea.

Distribution Facilities.

Though vast areas of this sales territory are without other transportation lines than that of the caravan route, the area adjacent to Tientsin is perhaps better provided with railway communication than any other part of China. The Tientsin-Pukow Railway runs south through Shantung to the Yantze, where it is connected by ferry with the Shanghai-Nanking Railway. The Peking-Mukden line connects Tientsin with Manchuria, Siberia, and European Russia on the north, and, through the Peking–Suiyuan Railway, with Kalgan and the trade routes to Mongolia. The Peking-Hankow line connects Tientsin, through Honan, with Hankow, and its branch line from Chengting penetrates Shansi Province to Taiyuan. Thus Tientsin may be properly credited with having the most considerable and extensive railway connections of any seaport in China. Its waterway connections are, however, remarkably slight for China, the principal one being that of the Grand Canal, which connects it with Hangchow in the south, and, via Soochow Creek, with Shanghai.

Of more importance are its overland connections with the far north and west. The most important automobile transportation service in China is that maintained between Kalgan on the Peking-Suiyuan Railway and Urga, 800 miles across the Mongolian desert. From Urga this motor-transport service also continues on via Kiakhta to a junction with the trans-Siberian Railway at Verkhne-Udinsk. From the railway at Paotowchen camel routes lead, one northward to Uliassutai and Kobdo in far northwestern Mongolia, and one southward, via Lanchow, in Kansu, and along the Kokonor boundary into Chinese Turkestan. Highroads in all the commercial territory tributary to Tientsin are unsuitable for motor transport, with the exception of 150 miles in Tientsin and Peking and their vicinity. Transportation into the interior, aside from that previously mentioned, is largely by carts and pack animals. In the territory south of Tientsin, small inland waterways afford limited freight transportation to isolated localities by means of junk traffic.

Demand for Foreign Products.

An increase in the standard of living, a considerable rise in the scale of wages, and better methods of trade distribution have developed throughout Tientsin's commercial area a growing demand for foreign products which, in the years before the war, were almost unknown to the inhabitants. Among foreign articles for which a demand has been created and is still capable of much increased stimulation are: Paper, glass, chemical products, dyes, stoves and grates, worsted and woolen articles, leather goods, soap and toilet articles, medicines, hardware and implements, enamel ware, and machines for sewing, printing, knitting, hat making, and grain cleaning. There is also a steadily growing demand for motor cars, bicycles, typewriters, furniture, and industrial machinery. Among the specialties, clocks, watches, jewelry, phonographs, photographic materials, lamps and lamp ware, hosiery, and boots and shoes are in demand. Tientsin is the distributing center for approximately 50 per cent of all dyes and colors imported into China. There has been in recent years an increasing tendency on the part of the Chinese to use foreign manufactured dyes in place of vegetable dyes of native origin; and the rather extensive carpet-manufacturing industry in the vicinity of Tientsin and Peking, employing between 16,000 and 18,000 men, gives continued evidences of this. At present Germany has about 75 per cent of the dye trade and the United States about 15 per cent.

Trade Methods.

Most of the foreign trade is carried on through American, European, and Japanese houses, acting on their own account or as agents for their foreign principals, and a number of these houses have branches or connections in the United States. Of Tientsin, as of other ports in China, it may be said without invidious discrimination that wherever possible it is preferable that American agencies be placed with American firms already in the field. Where the market in any special line may seem to give promise of a volume of business sufficiently large, however, the American exporter or manufacturer may find it advisable—but only after an extensive study of the field by trained representatives—to establish his own branch office. This measure in the Tientsin area is to be recommended only for lines for which there is clearly evident a permanent and extensive demand.

In general, it may be said that the old-established houses have a better knowledge of the trade methods involved, the distribution facilities, and the administrative difficulties encountered in the Tientsin trade area than a new house is likely to acquire in many years of effort and heavy expenditure. It has been found, however, that representatives of American manufacturers, those who are export technicians or salesmen, can be employed with great effectiveness on the staff of the house acting as the manufacturer's agent, thus insuring to the manufacturer or exporter not only the organization, experience, and prestige of the established China house, but the opportunity for direct representation at a fairly reasonable cost by men fitted to make a detailed study of the market and actively promote their specific line.

The Foreign Commercial Community.

The foreign commercial community at Tientsin is one of the foremost in China. The British, French, Japanese, Italians, and Belgians still maintain concessions there, in which most of the foreign residents and business houses are located. British residents number about 1,500, Americans 1,200, the Japanese around 5,000, Germans and French in the neighborhood of 500 each, and Russians between 8,000 and 10,000. There are around 75 American firms in Tientsin, many of them of considerable importance, and an even greater number of British business houses, while the French, Japanese, and German trade organizations are also

prominent. There is a general chamber of commerce, organized by Americans and Europeans, an international club, a German club, and others. Among foreign exchange banks are 2 American banks and 10 principal banks of other nationality. An unusual number of newspapers are published in the English language, the principal of which are The North China Star (an American daily), the North China Mail (daily), the China Advertiser (weekly), and the Peking And Tientsin Times (daily). There are also the China Illustrated Review (weekly) and L'Echo de Tientsin (French, daily).

The Austrian and German concessions, in which many foreigners still reside, taken over by China in 1917, and the Russian concession restored to China in 1924, have now been organized as special Chinese administrative areas and are administered under the Chinese commissioner of police, separately from the administration of the Chinese city. In the British, French, Italian, and Japanese concessions administration is mainly in the hands of municipal councils elected by the taxpayers. There are no restrictions on the right of foreigners to reside in any of the concessions, except the requirement that they abide by the municipal regulations.

One of the essential advantages in the establishment of sales agencies in Tientsin is the proximity of the principal Chinese Government departments at Peking. At Peking are the foreign legations to take up diplomatically with the Wai Chao Pu, or Chinese Foreign Office, the hardships the foreign trader may encounter from irresponsible or uninformed Chinese sources. Here are the several ministries, including the ministry of ways and communications, which purchase construction materials and equipment for the Government-owned railways. In recent years the Chinese Government has been an important purchaser of foreign materials, and the Tientsin agents of many foreign firms have devoted a large share of their time to obtaining the Government's business. Peking itself is not a city of commercial enterprise but is one of administrative functions. Shanghai is far away; generally speaking, therefore, a live business agency at Tientsin is in the best position to undertake negotiations for Government contracts.

In Tientsin, as elsewhere in China, import and export houses usually conduct their dealings with Chinese concerns through a comprador. In recent years the

development of more active foreign principals in the trade has tended to reduce his responsibilities somewhat. There is more and more a tendency to develop young foreigners, or Chinese, with a knowledge of both the Chinese and foreign languages for the service of the firm and to reduce the comprador to the position of manager of the Chinese office force. Elimination of the comprador's services naturally has been made chiefly among the most progressive firms. He is now principally a credit man, dealing with unknown or distant Chinese customers.

Credits.

Trade credits in Tientsin follow in general the customs evident in other treaty ports. Credit extensions to local importers vary considerably, depending upon the reputation of the concern, the nature of the goods, the volume of sales, the state of competition, etc. The usual practice is for the importer to arrange with his local bank for the opening of a credit with the foreign correspondent bank in favor of the exporter abroad. Against this credit the local bank may or may not require the deposit of collateral or security, depending upon the reputation of the firm and the nature of the goods. Drafts are drawn usually on the importer instead of against the local bank, acceptance of the draft by the importer being considered in the light of an indisputable liability. Upon receipt of the documents and the acceptance of the draft, while the cargo remains under the custody of the bank, deliveries may be affected in accordance with the wishes of the importer, or to Chinese dealers in the form of installments, payment for each installment being usually made by a native order.

Export firms purchase export cargo in the open market or sometimes make their purchases on a forward-contract basis from interior dealers. Upon acceptance by the foreign buyer of the Tientsin export firm's offer, the usual procedure is for the buyer to open a credit in favor of the exporter. If credit is opened, the exporter frequently requests an advance in the form of packing credits from the bank in which the credit has been opened. If no credit has been opened, the exporter generally has recourse to his own bank for packing credits in the form of overdrafts. When a foreign bank grants packing credit to a Tientsin firm, it allows the firm to draw on the bank up to practically the full value of the goods to be shipped. The bank generally accepts and sometimes insists, in

order to guard against the dangers of speculation in exchange, that an equivalent amount of exchange be settled with it before the credit is granted. In return for this arrangement the firm gives a letter of guaranty to the bank, in which it undertakes to hold the cargo at the disposal of the bank, fully insured against all risks.

HARBIN

The trade area of which Harbin is the center possesses some features not found in any other part of the Far East. It embraces the two Manchurian Provinces of Kirin and Heilungkiang; a part of inner Mongolia; eastern Siberia, practically as far north as settlements extend; and southern Siberia along the trans-Siberian Railway, at least as far west as Irkutsk and Lake Baikal. Owing to conditions in Russia in recent years, merchants often journey all the way from Omsk and even from European Russia itself to buy foreign products at Harbin. Harbin is a Russian city in China, with a European population of around 150,000, mostly Russians. The commercial language is Russian, and the principal trade organizations and municipal institutions are Russian or in some instances a mixture of Russian and Chinese.

Present-day North Manchuria, in an economic sense, is a creation of the Chinese Eastern Railway. Prior to its construction by Russia (1896–1903) the population numbered hardly 2,000,000, with no important towns and villages, no industries except that of the primitive agriculture needed to sustain a bare living, and no social development. To-day Manchuria has a population of 22,000,000, approximately one-half of which reside in north Manchuria, with, in recent years, an influx of around 1,000,000 farmer colonists per annum from the overcrowded Chinese Provinces of Chihli and Shantung. The annual value of north Manchurian produce alone, the output of its bean, wheat, and millet farms, its timberlands, and of the industrial plants principally centered around Harbin, is in excess of $320,000,000, and its annual exports total around $60,000,000.

Imports, however, do not offer nearly such striking figures. The bulk of foreign imports is landed at the south Manchurian port of Dairen, and being included in the customs returns of that port no figures adequately showing the share of north Manchuria are available. With the exception of Europeans and wealthy Chinese

in the principal cities, the great bulk of the population is poor, with a low standard of living and undeveloped wants, although it is growing richer every year from the fertile farming lands.

The population of those portions of Siberia which are commercially tributary to Harbin probably does not exceed 5,000,000. These people live under extremely severe handicaps in the matter of administrative regulations and facilities for communication and transportation. There are several large cities, however, of comparative wealth and commercial importance. The principal ones are Irkutsk, near Lake Baikal, with a population exceeding 100,000; Chita, an important town of 60,000 people, near the junction of the trans-Siberian-Chinese Eastern Railway lines with the all-Siberian route from Vladivostok to Moscow; Blagovestchensk, on the Amur River, with a population of 100,000 and the center of the wheat production of the Amur Valley; Habarovsk, a city of 40,000 inhabitants, situated at the junction of the Amur and Ussuri Rivers, with the Ussuri Railway; and Nikolaivesk, at the mouth of the Amur, the seat of important fisheries. However handicapped they may be, the people of these cities all look to Harbin as their main point of contact with foreign trade, largely directing their products there and going there to seek the foreign imports they need.

Transportation Facilities.

The transportation and communication facilities of the area served from Harbin include more railway mileage than any other section of China. The Chinese Eastern Railway totals 1,085 miles and crosses Manchuria from west to east, connecting European Russia, via the trans-Siberian Railway at Manchuria Station on the western border, with Vladivostok, the Siberian port on the Pacific. A southern branch runs from Harbin to Changchun, where it connects with the South Manchuria Railway and thus links up north Manchuria with Japan, China, and the trade of the Pacific Ocean.

There has been completed recently, moreover, another line into north Manchuria from Ssupingkai, on the South Manchuria Railway above Mukden, to Tsitsihar, a station on the Chinese Eastern Railway, roughly 200 miles northwest of Harbin. Another railway is now partially constructed and trains are in operation from Harbin, via Hulan, and across one of

the richest grain-producing regions in Manchuria, to Hailung. It is anticipated that either this railway or the Ssupingkai-Angangki-Tsitsihar line will be projected further northward across Manchuria, via Mergen, to the Amur River opposite Blagovestchensk.

There is also a Chinese railway in operation between Kirin, the capital of Kirin Province, and Changchun, and a Chinese railway is in course of construction from Kirin southeastward, through a country rich in timber and agricultural resources, via Tunghua, to a point near Hungchung on the northern boundary of Chosen. Moreover, in any consideration of the rail communications of this area, the all-Siberian route, completed by Russia in 1916, connecting at Habarovsk with the Vladivostok-Ussuri Railway and running parallel to the course of the Amur River from that point to its junction with the trans-Siberian line at Kaidalovo, near Chita, should not be overlooked. This road was built mainly for strategic and administrative purposes, but in the future development of eastern Siberia it is bound to be a factor of much commercial importance.

Hardly less important than the rail transportation is that of the waterways. The Amur, one of the great rivers of the world, is the northern boundary between Manchuria and Siberia and is navigable for large steamers from its mouth to Blagovestchensk, about 1,400 miles. From that point smaller steamers navigate another 600 miles to Stretensk, a point on the Shilka, which with the Argun River forms the Amur. The Argun River, forming the western boundary of north Manchuria, is navigable for light-draft vessels and junks almost its entire length. Other comparatively large and navigable tributaries of the Amur are the Ussuri, along north Manchuria's eastern border, and the Bureya and Zeya Rivers, which flow through southern Siberian valleys into the Amur.

The most important tributary of the Amur, however, and the transportation route most important to Manchuria, next to the Chinese Eastern Railway, is the Sungari River. Large river steamers navigate the Sungari for 450 miles to Harbin, from the Siberian cities of Nikolaievsk, Habarovsk, and Blagovestchensk, while small steamers and innumerable junks ply the river to Kirin. It is in the valley of the Sungari and along the railways that nearly all the important portions of north Manchuria's population are settled.

For about six months of the year, from early November to early May, the waterways are frozen up and

junk traffic is largely superseded by cart transportation. Strictly speaking there are no roads in Manchuria, but during the winter season immense quantities of beans and other grain products are hauled to market over the frozen earth. In summer, after the winter's thaws and during heavy rainfall, these routes become impassable quagmires. Motor transportation is gaining in popularity in north Manchuria but is confined to the limited area in the neighborhood of the railways. On the Mongolian border ox carts and camel caravans are the freight carriers employed over the steppes and the desert.

Resources.

Southern and eastern Siberia are rich in resources of furs, timber, wheat, mineral ores, and dairy products, while north Manchuria produces abundantly soy beans, bean oil, wheat and millet, timber, wool, and livestock products. Total imports into the two regions of cotton textiles and wearing apparel, manufactures of iron and steel, boots and shoes, leather goods, tobacco, toilet articles, and all the numerous modern specialties that appeal to a European population as well as to the better class of Chinese probably approximate $40,000,000. Harbin is the distributing center for most of this trade, both import and export.

Russian Traders.

While there are many Chinese merchants in North Manchuria, in both that region and in eastern Siberia the bulk of the import and export business is in the hands of Russians. These merchants are keen traders, careful investigators of every competitive market, and shrewd buyers. A great many of the Russian firms correspond to jobbers in the United States, and job lots of merchandise, particularly such lines as dress-goods, men and women's underwear, haberdashery, notions, canned foodstuffs, hosiery, toilet articles, etc., find ready markets. There are also between 25 and 30 American firms already more or less established at Harbin, some of them of high standing and efficient organization. Unlike the situation in other sections of China, a question may readily arise in the commercial area tributary to Harbin as to the advisability of placing American agencies in the hands of American firms rather than with Russian firms. Each case can be decided only upon its individual merits. Many Russian firms have the advantage of larger organization, wider knowledge of the people, their trade methods

and needs, and better facilities for overcoming trade handicaps, such as administrative regulations or transportation difficulties.

Sales Agencies.

It will thus be seen that in the Harbin district the sales agency, while undoubtedly having considerable relations with the Chinese and others, must be equipped to accomplish its main results with Russian traders. Although English may be employed to a certain extent, use of the Russian language both commercially and in social intercourse is of the greatest service. A knowledge of the Russian character, its susceptibility to agreeable personal contacts, its instant adverse reaction to impersonal or "strictly business" advances in commercial transactions, is of prime importance. An American sales agency in Harbin needs to be under the management of a man who can be a "good fellow" and still keep his head. He should be of the type who is willing to travel under conditions of distinct physical inconvenience and hardship, not at times unmixed with danger. He should be fitted to meet all sorts of people on their own ground and never be taken off his balance.

A sales agency at Harbin would probably establish subagencies, either Chinese or foreign, with local firms in the main north Manchurian towns, such as Kirin, Ninguta, Tsitsihar, Hailar (the center of a great wool export trade), Sansing, perhaps at Hulan and Manchuria Station. Subagencies in Siberia would not be feasible under present conditions and would be unnecessary, as Siberian merchants habitually come to Harbin for their import purchases. The American sales agent would, if possible, provide himself with a reliable transshipping agent at Changchun, in order to facilitate the transshipment of goods at that point from the South Manchuria Railway to the Chinese Eastern Railway; for until conditions change in Siberia, the great bulk of foreign imports will continue as in recent years to be landed at the port of Dairen and come into the Harbin trade area via Changchun. Owing to the fact that the South Manchuria Railway is of standard gauge, 4 feet 8 inches, while the Chinese Eastern Railway is of the Russian gauge of 5 feet, all goods have to be transshipped at that point, and delays are frequent and often embarrassing unless the interests of the agency are in the hands of a reliable and loyal transshipping representative.

Harbin is well supplied with banks, there being an American bank and branches of the principal British, Japanese, Russian, and Chinese banks in the Far East located there. The banking facilities are quite adequate to the trade of the district.

Local Currency.

Business is transacted locally in two currencies, the Japanese yen and Chinese local dollars. The Japanese yen currency consists entirely of bank notes issued by the Bank of Chosen. These notes read, "Payable in gold coin or in Nippon Ginko (Bank of Japan) notes," but actually they are redeemable only in Bank of Japan notes; and in order to obtain Bank of Japan notes in any quantity it is necessary to present the Bank of Chosen notes at the head office of the Bank of Chosen, at Seoul. These notes, however, pass freely as a medium of exchange and are usually quoted at practically the same value as the yen in Japan. In no case has the difference in value exceeded one-fourth of 1 per cent.

The Chinese local dollars consist of bank notes issued by the four principal Chinese banks. These notes were originally redeemable in actual silver dollars, but in recent years there has been an embargo on the export of silver from Harbin, except with special permission of the Chinese authorities, and since April, 1924, the Chinese banks have refused to cash their bank notes with silver dollars for any amounts in excess of $10 per person. Under these conditions, of course, the local dollar has to be considered as practically a paper currency, and the rate of exchange against the local dollar in comparison with the Shanghai dollar fluctuated at times to as low as 35 per cent discount. The fact that it is not freely supported by silver renders it liable to daily fluctuations of 2 to 3 per cent.

Outside of Harbin and the other cities along the Chinese Eastern Railway most of the payments for Chinese products and goods are effected in what is known as "tiao" or "feng piao." These currencies are entirely on a paper basis and are unredeemable at any fixed rate in silver or any other stable currency. It is said that the amount of feng piao issued by the Government bank has run into so many millions that they have lost account of the amount outstanding. The farmers accept only tiao or feng piao in payment for their produce; and it is due chiefly to the demand for these currencies for use in paying farmers that they

maintain nominal values. The values fluctuate from 30 to 40 per cent throughout the year, on account of political conditions and the need of funds by the authorities in control of the issue.

The tendency during the past few years has been toward a gradual decline in the value of the two currencies, and so long as it is necessary to issue them to meet military and other expenses their value is likely to decline further. While it is impossible to estimate the amount of tiao and feng piao outstanding, the amount of local dollar notes outstanding is said to be approximately $15,000,000 to $20,000,000. The amount of silver held against these notes is estimated to be not over $3,000,000 to $4,000,000. Remittance charges to Shanghai at the beginning of 1925 amounted to about 8 per cent, but these charges vary considerably.

Credits.

Owing to business conditions, local credits are difficult to obtain, and in the case of loans against real estate and property the interest rate is usually 18 per cent or higher. The Japanese banks are the only institutions which make advances against real estate to any great extent. Loans against local merchandise, with the exception of export and import cargo, are also very difficult to obtain. Borrowing facilities, however, are freely given to reputable firms by the foreign banks at rates of interest which are as low as those prevailing in other ports of China.

Export credits are given against railway waybills covering beans and other produce for export, on the understanding that ocean bills of lading will be delivered in a few weeks.

Import credits are arranged on the basis of a cash margin varying from 10 to 25 per cent, against which a banker's letter of credit is opened up in favor of the shipper abroad. The balance of the amount is paid either upon arrival of the documents or at a certain fixed time after the documents have arrived.

Transfers of funds to the interior Chinese cities and towns are usually very difficult to arrange, and are accomplished chiefly by means of native orders issued by small Chinese private banks and large firms. These orders are supposedly payable on demand, but it is usually necessary to register them with the firm and wait several days before payment is effected.

Advertising Mediums.

The commercial area tributary to Harbin is well supplied with advertising mediums. Three or four of the principal newspapers published at Harbin in the Russian language have a considerable circulation among all elements of the population, and to a certain extent even in Siberia. There are, moreover, two daily papers published in the English language, a morning daily under American direction and an evening daily under British management. While the circulation of these papers is restricted to the "intelligentsia" who understand English, that is also the class which understands advertising best and to which it has the most appeal. Newspaper advertising is practically wasted on the bulk of the Chinese population and on a considerable proportion of the Russian population also. Posters in both Russian and Chinese, especially in the interior, doubtless have a real advertising value, but the indiscriminate circulation of catalogues and pamphlets in other languages than Russian or Chinese is a waste of money.

The United States maintains a consulate at Harbin, and in all cases where an American exporter or manufacturer contemplates the establishment of a sales agency in this area he should consult with the consulate before committing himself to action.

DAIREN

Transportation Facilities.

South Manchuria, like north Manchuria, is another area in which the establishment of a sales agency equipped to meet special conditions might be more advantageous than attempting to cover the region from Tientsin or Shanghai. Just as north Manchuria is dominated by Russian institutions, the South Manchuria Railway, a Japanese enterprise, dominates virtually all commercial enterprises in south Manchuria, its branches connecting with every principal city.

The head offices of the railway are located at Dairen, the capital of the Kwantung Leased Territory, and the line extends northward from that point through Mukden, the administrative capital of the three eastern Provinces—Fengtien, Kirin, and Heilungkiang—to Changchun, where it connects with the southern branch of the Chinese Eastern Railway from Harbin. A branch of the South Manchuria Railway also extends from Mukden southeastward to Antung, where it meets

with the Chosen railways, which in turn connect with the Japanese railway system by means of a ferry across Korea Straits. At Mukden the South Manchuria Railway also connects with the Chinese-owned Peking-Mukden Railway, which connects the latter city with Tientsin, Peking, and the other great ports of north and central China. Other less important branches of the south Manchuria line run to Newchwang and Fushan, while at Ssupingkai the newly constructed Taonan-Angangki Railway forms another connection through north, central, and western Manchuria, with the Chinese Eastern Railway at Tsitsihar. Thus all the main trade centers of the area are connected by one predominant railway system.

From the standpoint of foreign trade, both incoming and outgoing, Dairen is the main gateway to all of Manchuria, for since abnormal conditions have cut off to a large extent passage of foreign trade through Vladivostok, nearly all trade destined to or from Siberia and north Manchuria passes through the customhouse at Dairen. Nevertheless, from the standpoint of sales distribution a sales agency located at Dairen would hardly be equipped to adequately cover the Russian-infused territory of north Manchuria and Siberia.

Japanese Domination.

So overwhelmingly predominant is Japan's commercial influence in south Manchuria that, from the viewpoint of the American exporter, Dairen is almost as much a Japanese city as Tokyo. All great Japanese trading companies maintain branch houses in both Dairen and Mukden, and some of them have subsidiary branches in Changchun and Antung. If the American manufacturer's or exporter's agent in Japan is one of the large Japanese trading companies, that agency has probably made all necessary arrangements for handling his line in Dairen, and it is as well equipped to look after his interests in south Manchuria as it is in Japan. Moreover, a good many foreign companies established in Japan also have branches in Dairen and Mukden, and these may be as adequately equipped as foreign firms in China to handle Manchurian business.

There are, however, American firms and others located in both north and south Manchuria, which have relations with each other but have no head or auxiliary house in Japan. On account of their direct contacts with the Chinese population in both areas, as well as with the Russian population in the northern area, it may be advisable, in some lines especially, that

agencies be placed with the foreign companies which function independently in Manchuria, or in connection with their other organizations in China, rather than with organizations directed from Japan. These (non-Japanese) companies operating independently in Manchuria, or in conjunction with other large organizations throughout China, very frequently have a network of subsidiary agencies scattered throughout the country, and they are thus able to give the commodities intrusted to their care a wider distribution perhaps than would be possible with companies in Japan.

It should be emphasized here, contrary to the belief among certain commercial circles, that although Dairen is in the Kwantung Leased Territory and Japanese interests are paramount among foreign interests throughout south Manchuria, all foreign companies operating in the leased territory and throughout Manchuria enjoy precisely the same extraterritorial status as is assured to foreign firms by treaty in other ports of China; and they are therefore under the supervision of the consular authorities or official representatives in China of the nationalities to which they belong. This is not infrequently a matter of importance in questions of an administrative or controversial nature.

Sales Agencies.

Mukden, as the administrative capital of the three eastern Provinces and the headquarters of the Chinese political administration as well as being the junction of important railway systems, might be considered to have certain advantages as a location for a foreign sales agency. Undoubtedly it possesses importance, because many Chinese railway and other Government projects are initiated there. However, preference is given to Dairen as the location of a general sales agency for south Manchuria, because it is a seaport as well as the terminus of the South Manchuria Railway. Both American and Japanese steamship lines maintain monthly sailings between Dairen and American ports.

In recent years Dairen has managed to gain second place among the ports of China in the aggregate of its foreign trade. In 1924 the total trade of the port amounted to $201,792,507, of which $87,378,044 were imports and $114,414,463 exports. Principal imports consist largely of cotton and woolen goods, hardware, oils and kerosene, machinery, electrical goods, drugs and chemicals, and railway materials. The principal exports are soy beans, bean cake, vegetable oils, cereals, coal, seeds, and silk.

Banking and Communication Facilities.

Banking facilities at Dairen are ample to cover the trade, there being one American and three important foreign banks located there. The local currency is the Japanese gold yen, and the cost of imports is met on the basis of yen exchange rates.

Telegraph, cable, and wireless services at Dairen and throughout South Manchuria in the zone of the South Manchuria Railway are operated by the Japanese Government and are adequate.

Trade Methods.

Merchandising methods are similar to those employed in Japan rather than in China. Quotations in import trade are made both f. o. b. and c. i. f., but local importers prefer the latter method. Local dealers usually request credit terms for varying periods up to 90 days, and in most cases it is advisable that arrangements be made to have the necessary credit extended by local banks, which are in a better position than others to know the financial position of local firms.

CONCLUSION

China is one of the few remaining countries in the world in which foreigners enjoy extraterritorial status—that is to say, the right of living under the laws of their own country. These laws are administered by the consular representatives of the various foreign powers in the several consular districts, and a foreign firm or individual in China, therefore, may be said to be subject to the laws of his own country, as applicable by treaty with China, and under the jurisdiction of the consulate of his nationality in the particular consular district where he may be.

The United States maintains 18 consulates in China, one in all the principal treaty ports, and each of these consulates maintain a consular court for the hearing of cases in which American citizens or interests are defendants.

In addition, the United States maintains a special court in Shanghai known as the United States Court for China, which also holds sessions in Hankow, Tientsin, and Canton each year, and which may, if deemed necessary or expedient by the judge of the court, hold sessions in any one of the consular districts. The jurisdiction of the American consular courts is limited to criminal cases in which the fine does not exceed $100 or 60 days' imprisonment and in civil cases to amounts in action not exceeding $500. Cases involving larger penalties or amounts and appeals from

the decision of the consular court must come before the United States Court for China.

There are, moreover, in Shanghai two highly specialized mixed courts known as the International Mixed Court of Shanghai and the French Mixed Court of Shanghai. The International Mixed Court hears cases arising in the International Settlement in which Chinese, or the subjects of those foreign powers which do not enjoy extraterritoriality (Russians, Germans, Austrians), are defendants. The claims of American citizens against the Chinese in and about Shanghai are all heard in the International Mixed Court.

American citizens and firms having claims against persons or firms in China should always consult with the American consul in the district in which they reside regarding their claim before undertaking any action, as it is the duty of the consular officer not only to give advice to his nationals and to render them every assistance in his power, but in cases of legal dispute it is also incumbent upon him to endeavor as far as possible to settle the question out of court.

Incorporation of American Firms.

Two courses are now open to American firms desiring to organize companies for operation in China: (1) Organization under the incorporation laws of whatever State of the United States the company may select; (2) incorporation under the provisions of the China trade act of 1922 (amended February, 1925), enacted for the special purpose of giving to American enterprises a Federal law for the incorporation of American companies in China.

American firms desiring to incorporate under a particular State law proceed precisely as they would to form such a company in the United States. The States under which such companies are usually incorporated are Delaware and New Jersey, but American interests are to be found trading under charters from practically every State in the Union, as well as in accordance with the laws of the Philippine Islands. The two primary purposes contemplated by the China trade act were: (1) To place American interests, from the standpoint of home incorporation and individual income taxation, on an equality of opportunity with other nationals doing business in China; and (2) to induce Chinese capital to participate in conjunction with American capital in business undertakings in China under American management. The procedure of incorporation under the China trade act is too com-

plicated to be included in a pamphlet of this character and those interested are referred to Trade Information Bulletin No. 74 (China trade act, 1922, with amendments as of February 26, 1925), published by the Bureau of Foreign and Domestic Commerce.

Post and Telegraph Services.

Little need be said as to the difficulties of China's postal and telegraph services, for in comparison with the backwardness evidenced in other institutions of public service the postal and telegraph service of China is remarkably comprehensive and complete. The total number of places provided with postal facilities at the end of 1923 exceeded 40,000. Serving these places are mail routes totaling 260,000 miles, of which 7,000 miles are railway. Water routes, consisting of steamer, launch, and native boat lines, are used for 21,000 miles. This leaves 232,000 miles of overland courier lines, on which mails are transmitted by every possible means, viz, wheelbarrows, motor cars, the camel, or the coolie on foot. One of these courier lines stretches from the railhead in Honan for 3,600 miles (more than the distance from New York to San Francisco) to Kashgar in western Chinese Turkestan. Mails are dispatched every day in the year from this line and over all other lines leading to principal towns.

The telegraph in China reaches every principal trade point. Its lines total only 31,000 miles, and while the service seems oftentimes leisurely to the impatient American, comparing it with the speed of telegraph operators in his own country, nevertheless messages do usually reach their destination and in surprisingly short time and good form, when all the difficulties are considered.

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China's Distributing Centers, a report by Viola Smith, assistant trade commissioner, August 26, 1924.

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Original sources.

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